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COVID-19: Public Health Strategies and the Capital Markets

By Eric Bushell, Chief Investment Officer, and
Jeff Elliott, Ph.D., Vice-President, Portfolio Management and Portfolio Manager
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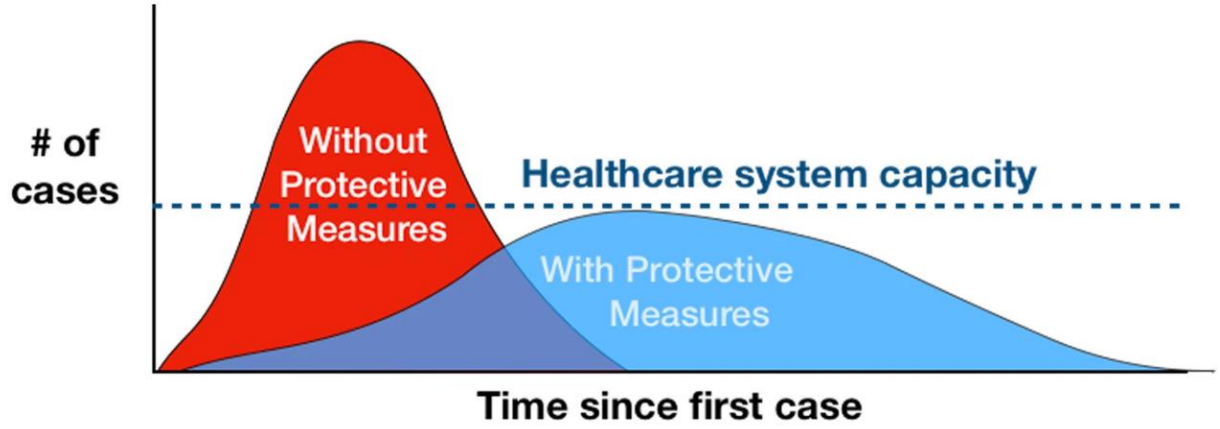
In a follow-up note to our recent pieces on the COVID-19 outbreak, Signature Coronavirus Commentary - February 28, 2020 and Coronavirus: Separating the disease from the market reaction - March 2, 2020, we wanted to outline our thoughts on the developing public health responses to COVID-19 and at a high level, the potential implications to the economy and the markets.

The notion of public health interventions as a means to control the impacts of the coronavirus are getting increasing attention, particularly as the responses of various countries and the resulting outcomes are diverging. The key point to understand is that epidemic control can work, but both the nature of the strategies and, perhaps more importantly, the timing matter.

It is important to differentiate between containment strategies and delay strategies for the coronavirus that causes COVID-19. In simple terms, a containment strategy attempts to isolate and contain all cases of a new infection and can be useful in the early stages of an outbreak. This is what was done effectively (ultimately) with SARS in 2003. Certain countries such as Hong Kong and Singapore appear to have successfully implemented this type of strategy, however many more have not.

Once a virus has essentially broken containment, the strategy must quickly turn to a delay strategy, in which the spread of the virus is essentially slowed, so that health systems are not overwhelmed.

For a virus such as the coronavirus that causes COVID-19, which is fairly easily transmitted and can be asymptomatic in the infectious stage, we are seeing many countries adopt this delay strategy. Ultimately, the faster they do this the better.

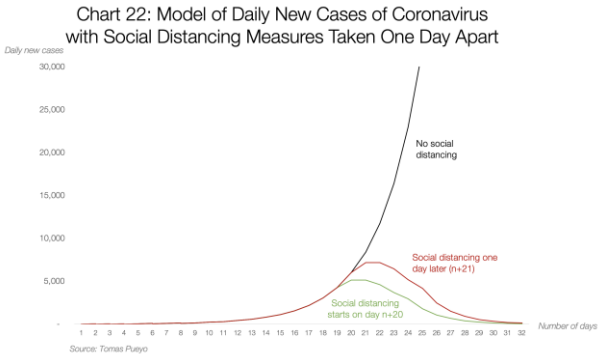


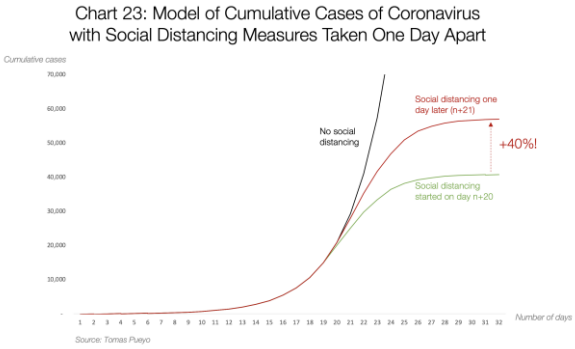
Source: CDC/The Economist

Key takeaway
As we stated in our earlier notes, the extreme market reactions to the COVID-19 pandemic relate to readjustments of expectations of the extent of the spread and the economic impact of the outbreaks. The volatility around policy announcements reflects a skepticism in the ability to contain the economic impacts of the pandemic. Ultimately, fiscal and monetary stabilization policies captivate markets, but what will truly matter is the effectiveness of the public health policy.

The magnitude of the escalation in Europe this week led Italy, France, Denmark, Ireland and parts of Spain (among others) to enact social distancing. In North America, the decisions to suspend vast numbers of sporting and cultural events (all major sporting leagues are suspended, Broadway is shut down) and the Ontario public school closure suggest reality has struck and accelerated the adoption of the delay strategy. More is needed and soon.

As relayed in this article, a properly implemented delay strategy can dramatically slow the number of new cases and eases the load on the relevant health care systems.





Source: Medium.com, as at March 10, 2020

This strikes a blow against the virus, limits the scope and pace of infection and could ultimately buy time to develop a vaccine.

Sign of things to come?

The Italian government has announced that the 12 original locked-down regions in Northern Italy are seeing a significantly reduced number of new cases, approximately 18 days after the lockdowns were implemented. If accurate, and when coupled with the apparent control in China and a plateauing of cases in Korea, this is an encouraging sign as to the effectiveness of social distancing strategies and the ability for proactive public health policy to alter the course of the outbreak.

If strict regimes of travel restrictions, quarantines and social distancing are instituted, the peak new case count could ultimately come sooner than feared, which would mark a turning point for capital markets. We would be back in control.

Sources: Signature Global Asset Management, The Economist, Medium.com.

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